

E-015/M-89-380 APPROVING AND MODIFYING SERVICE EXTENSION RULES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of a Request from Minnesota  
Power Company for Approval of Changes in  
the Company's Service Area Extension Rules

ISSUE DATE: August 28, 1989

DOCKET NO. E-015/M-89-380

ORDER APPROVING AND MODIFYING  
SERVICE EXTENSION RULES

PROCEDURAL HISTORY

On June 1, 1989, Minnesota Power Company (MP or the Company) asked the Minnesota Public Utilities Commission (the Commission) to approve five revisions to the Company's service extension rules. The Company requested an effective date of June 1, 1989. The Company implemented the proposed changes after the date of filing. In a letter filed June 27, 1989 MP stated that it recognized that this was not appropriate and as of June 23, 1989, the Company stopped applying the new rules.

On July 19, 1989, the Minnesota Department of Public Service (the Department or DPS) filed comments and proposed modifications. The Company responded to the Department's filing on July 27, 1989. On August 2, 1989, the DPS commented on the Company's response.

The Commission met on August 22, 1989 to consider this matter.

FINDINGS AND CONCLUSIONS

The Company proposed five changes to its service extension rules. The Department recommended approval of three of the proposed revisions and proposed modifications to the other two.

## Undisputed Revisions

### Transformer Costs

MP's current service extension rules on calculating extension costs exclude nearly all transformer costs. When MP extends lines underground, the estimated increased cost of the underground transformer as opposed to an overhead transformer is included as an extension cost under the current rules. The proposed rules eliminate any transformer cost from the extension cost.

The Commission finds that this proposed change is reasonable and will approve it. There is no reason to penalize customers for the increased cost of an underground transformer. Depending on soil and other aspects of the environment, underground transformers may be more economical to install than overhead transformers.

### Non-Standard Construction Costs

Under the Company's current rules, customers who ask for an underground extension where MP uses overhead as a standard or vice versa must pay a contribution for the added cost of the non-standard construction. The proposed rules would include these added costs in the customer's extension cost allowance.

The Commission finds that this change is reasonable and will approve it. Including all costs in the allowance treats the costs of standard and non-standard construction similarly and simplifies the administration of extension costs. Customers will still be able to choose the type of extension they prefer and would make a contribution when the total extension costs exceeds the extension cost allowance.

### Conversion Costs

Under the current and the proposed rules, customers that convert from overhead to underground service pay for the installed cost of the underground systems less a credit. Under current rules, the credit is the estimated accrued depreciation on the overhead system being replaced. Under the proposed rules, the credit is the cost to install a new overhead system less the undepreciated balance of the overhead system being replaced.

The Commission finds that this revision is reasonable and will approve it. This method of calculating conversion costs is practical, administratively efficient, reflects capital costs, and will fairly compensate all customers.

## Disputed Revisions

### Allowance Increase

MP's current rules require single-phase customers to make a contribution to costs when extension costs exceed \$2,000. The Company proposes to increase the allowance by 25% so that customers are required to make a contribution when the extension costs exceed \$2,500.

The Commission agrees with the DPS that the Company's request to increase the allowance is reasonable because the Handy-Whitman Index has increased 26% since January 1981 when the \$2,000 threshold was established. The Commission will approve this revision.

The Department argued that more frequent updates of the allowance amount would ensure fairer treatment of customers over time. The DPS proposed that MP update its rules whenever costs increase by 5% up to \$250, whichever is less. The Company stated that the extension cost allowance should be updated whenever costs increase by \$250 or more. The Company maintained that the more frequent changes required by a 5% change in costs are not warranted. The Company argued that in today's economy the Company would be required to file every year which is unnecessarily burdensome to the Company, the Commission, and other parties.

The Commission agrees with the Department that more frequent updating of the allowance is more equitable for customers over time. The Commission is not convinced that even annual filings would be unduly burdensome to the Company. The filings to update the allowance should be fairly simple. If the Company had used this procedure in the eight years since its last revision, it would have updated its allowance only once every one and a half years on average. The Commission believes that the five percent provision appropriately balances administrative and equity concerns and will adopt it.

### Revenue Guarantee

Under the proposed rules single-phase customers with extension costs exceeding \$2,500 may guarantee revenues for five years to support all or a portion of the extension cost over \$2,500. MP would review the customer's end-use capability and estimate the customer's needs to determine the amount of guaranteed revenues.

In 1981, when MP last modified its service extension rules, the Commission eliminated the revenue guarantee option for single-phase customers to encourage residential energy efficiency.

The DPS recommended an alternative that would require the Company to establish an energy efficiency standard to derive a maximum revenue guarantee for residential customers. The revenue guarantee would not exceed the amount customers would use if they conserved energy to the fullest extent possible.

The DPS also recommended that the Commission disapprove the proposed revenue guarantee option for single-phase commercial customers because allowing commercial customers to guarantee revenues could be contrary to conservation interests. Commercial customers already have an incentive to minimize overhead costs by buying less efficient equipment; revenue guarantees would only make that incentive stronger. The Company stated that establishing conservation standards for this customer group would be difficult.

The Commission agrees with the Department. The revenue guarantee, based on the maximum efficiency a residential customer could meet through energy conservation is reasonable. It balances the need to encourage energy conservation and to be flexible in extending service to customers. The Commission will adopt the DPS recommendation.

Further, the Commission shares the DPS' concern that a revenue guarantee could serve as a disincentive for commercial customers to save energy. Since the Company is unable to establish a conservation standard for commercial customers, the Commission will not approve a revenue guarantee option for this customer group.

### Effective Date

The Company requested that the effective date for the proposed extension rules be the date of the filing, June 1, 1989, to allow the new rules to apply to as many customers as possible during the relatively short construction season. The Company argued that the Public Utilities Act allows the Commission to adopt an effective date earlier than the date of Commission approval.

The DPS recommended that the rules be effective when approved by the Commission. The Department argued that the Company had cited no special circumstances that would warrant an earlier approval date. The DPS argued further that making the changes effective from the date of Commission approval would allow MP to construct extensions for customers during the current construction season.

The proposed revision to the Company's service extension rules will be effective upon Commission approval. MP could easily have anticipated the need for revised extension rules for the 1989 construction season and should have filed this proposal to meet that need. Utilities should anticipate the time necessary for proper regulatory review and make their filings accordingly.

In response to a DPS inquiry, MP reported that it had applied the proposed rules on the proposed effective date without Commission approval. When the Company learned of the inappropriate implementation of the rules, it stopped applying the proposed rules and returned to the current rules. The Company estimates that between five and ten customers were affected. The Company agreed to assume any financial shortfall if the Commission chose a later effective date. The DPS did not recommend that the Commission impose a penalty on MP.

The Commission agrees with the Department that a penalty is unnecessary in this instance. The number of customers affected was very small and the Company stopped applying the proposed rules when it recognized that the rules were being implemented prematurely.

### ORDER

1. The proposed revisions to Minnesota Power Company's service extension rules are approved with

the modifications proposed by the Department of Public Service.

2. The Company shall file new tariff pages within 20 days which reflect the decisions made herein.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen  
Executive Secretary

(S E A L)